SCE COMMENTS CLIMATE ACTION TEAM MEETING
January 23, 2006

Good Afternoon. I am Howard Gollay, Manager of Corporate Environmental Policy for Southern California Edison. SCE provided written and oral comments on the draft Climate Action Team (CAT) Report to the Governor and Legislature at the CAT meeting on December 13, 2005. As you know, Chapter 8, Macroeconomic Assessment, of the report was not available at that time. My comments today will address that chapter.

Chapter 8, Economic Assessment finds the overall impacts of the climate change emission reduction strategies from those strategies already underway (Table 5-1) as well as new strategies (5-2) will result in job gains and income gains for California. Although the chapter recognizes that the cost and potential savings information associated with most of the individual strategies have not yet been fully developed, it does state: "Although this analysis needs refinement, we expect that the fundamental conclusion--that the suite of strategies discussed in this report has a net positive impact on California's economy--will stand." [1] We believe it is premature to reach conclusions, even preliminary conclusions, concerning strategies being supported by the CAT prior to a comprehensive economic analysis that is peer and stakeholder reviewed.

It is critical to the development of sound public policy on climate change that the initiatives undertaken be thoroughly evaluated so that the strategies that have the maximum benefit, in terms of reducing the adverse effects of climate change on California for the least cost are implemented. The chapter recognizes the need for a refined analysis, including the macroeconomic impacts of the suite of climate strategies proposed to determine the overall cost/benefit of the proposals and which policy options will provide the greatest benefit at the least cost.[2] However, true cost benefit analysis in which the gain in terms of avoidance or mitigation of climate change impacts in California is measured against the cost of proposed policies is not presented and needs to be done. There is also a need to identify the chosen policies that are the most economical and efficient if the goals set in the Governor's June Executive Order are to be pursued. These steps are necessary to craft sound climate policy for the state.

In addition, the economic assessment results appear to be wholly dependent on the Input Assumptions rather than resulting from the analysis performed in exercising the E-DRAM model as the analytic tool. The strategy costs and savings were set ahead of time as page 4 of chapter 8 mentions. In essence, costs were postulated for policy measures and savings were applied (in nearly every case) that net out a low cost or net benefit. These preset calculations then drove the model. With the savings of the initiatives being predetermined, the E-DRAM model appears not to be used to perform an independent analysis of the various strategies under consideration. It is not surprising, then, that the model would calculate net benefit of the policies proposed. We need to learn more about

[1] Chapter 8 – Economic Assessment, Page 1
[2] Chapter 8 – Economic Assessment, page 8,10

how the savings were determined from the various initiatives to provide an evaluation of the results. Absent ability to review the actual analysis, reviewing these results is virtually impossible.

The CAT has a key role to play in the process to identify the most cost effective strategies to reduce greenhouse gases. The CAT must do more than collect the recommendations of the various agencies and accept them. It is important that the CAT provide objective assessment of the recommendations from the various agencies and to report what it believes should be done to reduce GHG. For example, chapter 8 refers to a CPUC commissioned report entitled "Achieving a 33% Renewable Energy Target" and states that the resulting benefits to ratepayers in 2021 and beyond are a net positive.[3] The chapter fails to mention that the CPUC commissioned report states that it is an initial assessment and that the report finds "considerable uncertainty" surrounding future rate projections and renewable portfolio standard costs.[4] A detailed analysis of the feasibility of achieving "33 by 2020" must be performed before any "GHG reduction credit" is assigned to the strategy. Issues such as deliverability - including any additions or upgrades to the transmission system, dispatchability - and the consequences to grid reliability, rate impacts, progress made toward meeting 20 by 2010 (by IOU's and other LSEs) must first be considered.

Another example of the failure to critically examine "savings calculations" is the recently CPUC adopted "Million Solar Roofs Initiative." As adopted, CSI is a capacity based incentive program, and is designed to produce installed megawatts of photovoltaic cell arrays. In order to achieve GHG emission reductions, however, the CSI should be designed to produce kWh of energy. In other words, to perform a useful assessment of the GHG value of the CSI, performance standards (which the CPUC has not yet set) would have to be evaluated.

Every GHG emission reduction strategy considered must be subject to a rigorous cost-effectiveness analysis, and only those with clear and demonstrable benefits to consumers and the environment should be pursued. Moreover, the CAT must assess whether the policies in question actually mitigate adverse climate effects on California, and must assess the relative cost effectiveness of the measures proposed. California government leaders need to be certain that any additional cost imposed on the State's businesses and families by the Climate Action Team proposals will:

(1) Result in significant mitigation of the global warming risks, especially through investments in clean technology and energy efficiency;

(2) Be fairly shared by all Californians;

(3) Not make the State less competitive in the US and global economies; and

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[3] Chapter 8 – Economic Assessment, page 8

[4] Achieving a 33% Renewable Energy Target, CPUC, page 1 states "These estimates are meant to be indicative rather than absolutes since, as this analysis demonstrates, there is considerable uncertainty surrounding future rate projections and RPS costs."

(4) Not endanger reliability of the electricity system or increase our dependence on foreign or higher-priced energy sources.

Regardless of the deadlines imposed for the report in the Executive Order, it is essential that such far reaching and complex policy be presented to the public in a manner that allows the regulated community and the public as a whole to have meaningful input. We request that the process to perform the necessary macroeconomic impact analysis be transparent. In the present case, we were provided a draft of Chapter 8 on January 5, a final draft on January 12 and input assumptions to the model on January 19, four days prior to the meeting today. Moreover, the information provided the public did not include the actual analysis by which the input assumptions were defined, a critical requirement if the Climate Action Team is to receive constructive feedback. There is simply not sufficient information or time to perform even a cursory review of the preliminary economic analysis presented in Chapter 8. We hope that in the upcoming economic analyses to be performed for the CAT that stakeholders will be an integral part of the process.

Thank you

Comments delivered by Howard Gollay, Manager of Corporate Environmental Policy, Southern California Edison International
e-mail: howard.gollay@sce.com
Phone: 626 302 4122